

*UBS Warburg

Minutes of the Leveraged Commitments Committee Meeting

Meeting Date: 2003-03-06

(ccy-mm-dd)

Attendee:
Committee Members: Chris Ryan (Chairman), David Juge (Loan Syndicate ? 3 March), David Bewden (CRC), Annette Spencer (Committee Counsel), Carol van Randwyck (minutes)
Deal Team and others: Mike Leder (IBD), Rod O'Neill (IBD), Scott Wollard (IBD), Michael Farah (IBD), CJ Coradino (Loan Syndicate ? 3 March), Gary Riddell (CRC), Andreas Wyler (CRC), Iain Francis (CRC), Debbie White (LPRM), Alex Geier (FI Credit Research ? not over the wall), Renata Jacobson (LPRM ? 3 March)

Transaction:

Project Name: Healthouth
Borrower Name: Healthouth Corporation
Region: Americas

Decision:
 Deferred

Approval is sought from the GSFCC for UBSW to:
 (1) A request from HEALTHSOUTH Corporation (?) HRC?) to amend their existing \$1.25 billion credit facility
 (2) Provide HRC with a \$22 million senior secured multiple draw Term Loan to help finance Source Medical, which is 30% owned by HRC

HRC proposes to reduce its credit facility to \$1.1 billion, comprising: \$400 million four-year partially amortising Term Loan; \$700 million revolving credit facility (RCF).

The Amendment Fee will be 25bps. Margins will depend on HRC's leverage ratio: Undrawn spread ? 27.5bps to 50bps; Drawn spread ? 225bps to 350bps.

Details of the Source Medical loan are documented in the minutes of 26 February 2003.

HRC is currently rated by Moody's and S&P, respectively, as follows: Senior Unsecured/Corporate Credit Rating ? Ba3 / BB-; Subordinated debt ? B2 / B; Outlook ? Stable / watch negative.

The Committee deferred the request as presented until the following has been conducted:

- Further analysis of the Q4 2002 financials and 2003 guidance
- Discussion between Craig Fitt (Ratings Advisory) and the S&P analyst for Healthouth on the background to the ratings change and when the company was advised of this change
- Clarification from the company of issues raised in the meetings (see below).

FI Credit Research informed the Committee of the following:

- HRC announced Q4 2002 results on 3 March; they were worse than expected:
- * EBITDA of \$204 million compared to expectation of \$220 million, excluding non-recurring items and minority interests)
- * margins were lower than expected, particularly on the Outpatients Rehabilitation business
- * HRC reduced legal and accounting costs in Q4 of \$300 million in relation to its recent spin-off
- * Clinic closures resulted in revenue reduction from Outpatient Rehabilitation, but this was offset by growth in other business streams
- * August 2002 guidance for Q4 was that the clinic closures would have a \$175 million negative impact on Outpatient Rehabilitation ? actual results were worse
- * August 2002 Q4 EBITDA guidance was \$275-\$300 million
- Market reaction to the results has been neutral; Q4 results have not changed investors' views on the Company
- Sceptical that the Company will achieve projected 2003 full year EBITDA of \$1bn+ - more likely to be approx. \$980 million

CRC informed the Committee that during a discussion with HRC's Treasurer in the week of 17 February 2003 (ie two weeks before the Q4 results were announced), UBSW was advised to use the

10/03/03
<http://fixer.stm.swissbank.com:8181/lfcc.nsf/ReqNum3/B10FF8509...>

August guidance for Q4 results as a basis for evaluating HRC.

CRC believes that HRC's actions over the last two weeks have damaged the company's credibility with UBSW.

The Committee was informed that:

- HRC was advised by their S&P analyst on 4 March that the Company's rating would be downgraded one notch and the announcement would be made to the market the following day (5 March); HRC management called the Deal Team on 4 March inquiring on the status of our approval of the amendment, without informing them of the impending downgrade
- HRC is planning to file its Q4 2002 10-K at the end of March 2003
- HRC did not seek the amendment to the \$1.25 million facility earlier as they were focussed on the Source Medical borrowing needs
- HRC still plans to use Source Medical as the main outsourced provider of admin. services
- The Deal Team has been informed by HRC that approvals to the proposed amendments to the larger facility have been received from Wachovia and Scotia Bank ? verbal approvals are still awaited from JPM, BofA and UBSW
- The amendment to the \$1.25 billion facility includes a springing lien, enabling HRC to take advantage of the \$400 million basket
- It is expected that the covenants on the larger facility will be breached as at 31 December 2002 ? CRC were aware of this and believe it to be the main reason why HRC is seeking an amendment to the facility.

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Loan Syndicate advised the Deal Team that the covenants on the \$22 million bilateral loan will need to be identical to the amended \$1.25 billion facility. Accordingly, the covenants on the bilateral will need to be amended should the larger facility close after the bilateral. The proposed collateral for the larger facility will have to be subject to satisfaction of the lenders.

Agreed actions:

- Deal Team to:
 - * Obtain an explanation from the Company as to why we were advised to use August 2002 guidance for Q4 results two weeks before actual results were reported, showing a significant reduction in EBITDA from the August guidance
 - * Obtain guidance from the Company of the information they plan to provide at the forthcoming bank meeting

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- Advise the Company not to issue a Borrowing Notice
- Obtain confirmation from the Company that the HRC contracts with Source Medical exist and that the backlog as previously reported has not changed
- Obtain an explanation on the collateral to be provided as security for the \$1.25 billion facility
- FI Credit Research and CRC to analyze the Q4 2002 results, 10-K filing and 2003 guidance before the amendment and loan request are reconsidered by the Committee

Deal Reference #: LF11005

CFD Project Code:

FMS Facility No.	Facility Type	Facility CCT	Total Facility Size (erry in mils.)	Approved UW (erry in mils.)	Approved Hold (erry in mils.)	Current Mode (erry in mils.)	Final Allocation (erry in mils.)	Category Type	Master Position
	Term Loan	USD	22					N.I.G. Pending	1384 (Leveraged Ln - Hold)
	Term Loan	USD	400					Amendment/Extension	1384 (Leveraged Ln - Hold)
	Revolving Credit	USD	700					Amendment/Extension	1384 (Leveraged Ln - Hold)

BPS Section:

Deal Status: Pending
 Closing Date: (ccyy-mm-dd)

CRC Section:

Comments:

Initial CRC Rating:

Risk Management Premium:

UBSW Title: Participant
 UBS Title:
 Comments:

Client Region: Americas
 Industry Sector: Healthcare
 Financial Sponsor:

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